



SANDRA SHEWRY
Director

State of California—Health and Human Services Agency
Department of Health Services



ARNOLD SCHWARZENEGGER
Governor

April 20, 2006

Dear Interested Parties:

**DISEASE MANAGEMENT PILOT PROGRAM REQUEST FOR PROPOSAL
(RFP) 05-45889 ADMINISTRATIVE BULLETIN 5, ADDENDUM 5**

Administrative Bulletin 5, Addendum 5 issued by the California Department of Health Services, Office of Medi-Cal Procurement (OMCP), announces revisions to Exhibit B, Attachment I, Special Payment Provisions, of the original RFP.

In order to configure the RFP so that it accurately reflects the current requirements and considerations, remove the existing page(s) in your copy of the RFP and insert the appropriate replacement page(s) as indicated in the following table:

Remove (existing pages)	Replace (new pages)
Exhibit B, Attachment I, Pages 3 - 5 of 5	Exhibit B, Attachment I, Pages 3 - 5 of 5

Please use care when replacing pages since multiple addendums have been issued for this RFP and it may be the case that some page(s) have been replaced more than once. Replace pages in addendum number order only.

Within the text of the document, changes appear in underlined print with a vertical bar appearing to the left of the paragraph where changes were made.

If you should have further questions, please contact Beverly Fisher, lead analyst assigned to this procurement, at (916) 552-8006.

Sincerely,

Donna Martinez, Chief
Office of Medi-Cal Procurement

Exhibit B, Attachment I
Special Payment Provisions

7. Invoicing and Payment Additional Requirements

The Invoicing and Payment requirements stated in Exhibit B, *Budget Detail and Payment Provisions*, Provision 1, entitled *Invoicing and Payment*, paragraph C, are minimum standards and additional billing information may be required as the project develops. Any additional requirements will be considered normal business operation and not require a contract amendment.

8. Savings Guarantee and Calculation Methodology

- a. The Disease Management Organization (DMO) shall guarantee California Department of Health Services a zero percent increase in net medical costs for Medi-Cal members who are eligible for the Disease Management Pilot Program (DMPP). Restated, the DMO guarantees that the program will create savings equivalent to the DMPP contracted DMO fees. One hundred percent of the DMO's fees will be at risk for this guarantee of cost-neutrality. If CDHS terminates the contract in the first 16 months, the Contractor will be held to no guarantee. If CDHS terminates the contract after 16 months but before 28 months, the cost-neutrality guarantee will be changed to a guarantee to limit the net increase of medical costs to five percent. If CDHS terminates the contract after 28 months but before 43 months, the cost-neutrality guarantee will be changed to a guarantee to limit the net increase of medical costs to two and one-half percent.
- b. The DMO's guarantee shall be proportionate, in that, as needed, the DMO shall refund its fees in the same proportion that the cost-neutrality target is missed. However, the DMO will not be liable for more than 100% of its fee.
- c. DMPP savings are calculated using the following formula: Per member per month (PMPM) costs of the matched control group – PMPM costs of DMPP eligibles x DMPP eligible months.
- d. Costs for Medi-Cal fee-for-service (FFS) beneficiaries without DM services will be estimated using the average (mean) PMPM total Medi-Cal costs of a matched control group. The matched control group will be selected from Medi-Cal FFS beneficiaries from outside the pilot areas who meet the DMPP eligibility criteria. The matched control group's membership will be determined through a statistical matching method by a third-party evaluation contractor. Costs for DMPP eligibles in the pilot area and the matched control group will be determined by actual costs in the [operation and phase-out](#) periods after a six [to twelve](#) month lag time for run-out claims. Per member costs of DMPP eligibles will include DMPP DMO fees paid (the fee is only paid for DMPP members, but for the guarantee calculation, the fee total will be added to the total medical costs of DMPP eligibles in the pilot areas and averaged).
- e. The determination of costs for both the DMPP eligibles and the matched control group will follow the same algorithm. Cost comparisons shall be made on a PMPM basis, using the formula: *costs divided by member months*. Costs will be

Exhibit B, Attachment I
Special Payment Provisions

accumulated as total Medi-Cal expenditures during the operation and phase-out periods of the contract. Costs in the operation and phase-out periods of the contract will be included for months when that Medi-Cal beneficiary met the eligibility criteria for the DMPP.

- f. Member eligibility includes the full set of Medi-Cal FFS beneficiaries and reduces this population based on criteria specified by the CDHS. Based on Medi-Cal eligibility and other criteria, DMPP eligibles may lose or gain eligibility monthly.
- g. Because this methodology uses a matched control group comparison, no baseline comparison is needed, and therefore no adjustment for inflation is required. There will also be no regression-adjustment for any disease because there is no baseline comparison involved. Because the DMPP eligible population is relatively large, no large single expenditures (outliers) will be removed from the calculation. Please note that the savings calculation is based on averaged PMPM expenses for the entire DMPP eligible population in the pilot area, and not just the DMPP members who receive services.

Exhibit B, Attachment I
Special Payment Provisions

9. Sample Savings Calculation

	Control Group	DMPP Eligibles	Comments
Contracted Fees and Guarantee			
Claims cost/month for three-year operation period and three-month phase-out period	\$500	\$500	PMPM costs are measured from the first day of the operations period of the contract or the first day of the first month the eligible or member generated a claim.
Vendor fees		\$40	Actual PMPM fee of \$50 total for DMPP member-months and divided by DMPP eligible-months (for purposes of this sample, member months equal 80% of eligible months based on a hypothetical 80% enrollment rate).
Vendor guarantee		0.0% net	Negotiated ("net" refers to total costs with vendor fees included).
Vendor target		\$500	0.0% reduction from \$500 control group claims, including vendor fees
Calculated Performance			
Total actual claims	\$500	\$500	Calculated
Total actual cost	\$500	\$540	Claims plus fees, calculated
Did the Vendor Meet the Target			
Vendor performance versus target		\$540 performance; \$500 target	Net claims should have been \$500 to meet the target.
Amount of miss		\$40	
Payout by vendor to compensate for missing target		\$40	Vendor refunds 100% of their fees.